APPROVED FOR RELEASE)
DATE: JUL 2004 (b) (3)

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	1. IRAN-	-IRAGE SITUATION REPORT.		
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1. //IRAN-IRAG SITUATION REPORT: THE ISLAMIC CONSULTATIVE ASSEMBLY'S DISCUSSION OF THE HOSTAGE ISSUE WAS DELAYED ON 18 SEPT BY PRIME MINISTER RAJAI'S INTERRUPTION TO PRESENT A SECRET REPORT ON THE IRAN-IRAG BORDER SITUATION. THE IRAGIS ON 18 SEPT ISSUED REGULATIONS GOVERNING THE USE OF THE SHATT AL ARAB WATERWAY: RAISING THE POSSIBILITY OF A MAJOR CONFRONTATION WITH IRAN.

//DEBATE ON THE FORMATION OF A SPECIAL COMMITTEE TO HANDLE THE HOSTAGE ISSUE WAS ACRIMONIOUS AND APPARENTLY WILL BE RESUMED AT THE ASSEMBLY'S NEXT SESSION ON SUNDAY.

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PROLONGED DISCUSSION IS LIKELY BEFORE THE COMMITTEE BEGINS ITS WORK. THE ASSEMBLY AGREED YESTERDAY ON A PROPOSAL BY THE HARDLINERS FOR THE ASSEMBLY TO PRODUCE MTERMS OF REF- ERENCEM FOR THE COMMITTEE.
//MARDLINEPS USED THE SESSION TO CALL FOR MOSTAGE TRIALS. CONDEMN THE US. AND ATTACK SECULAR MODERATES WHO HAD OFFICIAL. CONTACTS WITH THE US DURING THE BAZARGAN ADMINISTRATION. MODERATES LIKE BAZARGAN AND EBRAHIM YAZDI RESPONDED BY CITING KHOMEINI'S INSTRUCTION LAST YEAR TO "PREPARE PUBLIC OPINION" FOR NECESSARY MILITARY PELATIONS WITH THE US. AND THE CONTACTS AYATOLLAH BEHESHTI AND OTHER CLERICS HAD EARLIER WITH US OFFICIALS.

MILITARY SITUATION.

BAGHDAD ON 18 SPET. DECLARED THAT ALL SHIPS USING THE SHATT AL ARAB MUST FLY THE IRAGI FLAG. FOLLOW IRAGI NAV-IGATIONAL INSTRUCTIONS: AND DAY TOLLS TO IRAG. IRANIAN AUTHORITIES ARE LIKELY TO BALK AT SUCH MEASURES ESPECIALLY FOR THEIR BARSHIPS EN ROUTE TO THE NAVAL SHIPYARD AT KHORRAMSHAHR. BAGHDAD ALMOST CERTAINLY IS PREPARED TO USE FORCE TO BACK UP ITS CLAIM TO THE BATERWAY.

FIGHTING CONTINUED ALONG THE SOUTHERN BORDER WITH IRAN CLAIMING ITS ARTILLERY SET AN IRAGI DIL WELL ABLAZE. IRAN HAS AVOIDED SUCH ACTION IN PAST CLASHES. IRAG CLAIMED TO HAVE DOWNED ANOTHER IRANIAN AIRCRAFT AND REPULSED IRANIAN

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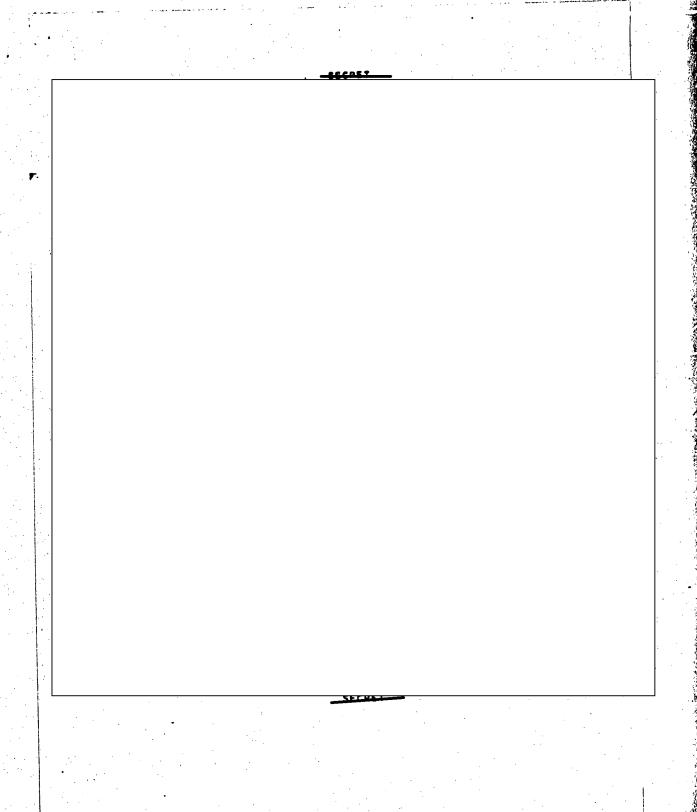
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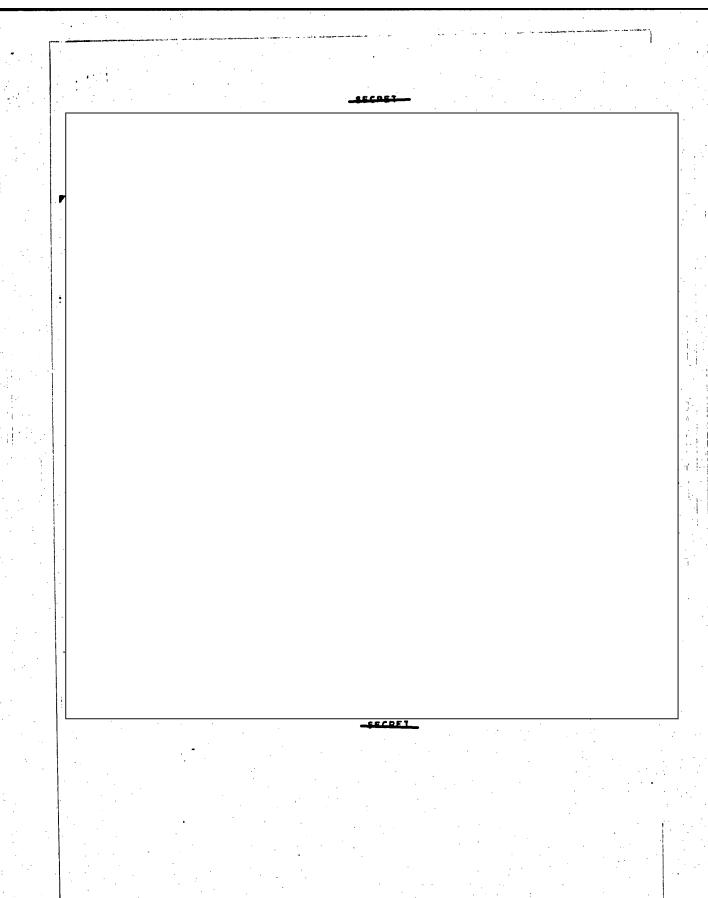
TANK ATTACKS.

PRODUCTS.

THERE MAVE ALSO BEEN CLASHES ALONG THE SMATT AL ARAB PORTION OF THE BORDER. THESE THREATEN KEY ECONOMIC FACTURE IN IRAQ AND IRAN. PIPELINES IN THE AREA CONNECT MAJOR IRAGI DIL EXPORT TERMINALS IN THE PERSIAN GULF WITH OILFIELDS WEST OF AL BASRAM AND ALONG THE RORDER. THAT CITY IS THE SITE OF IRAO'S LARGEST REFINERY WHICH HANDLES ABOUT INTERPORT OF THE COUNTRY'S DOMESTIC DIL REQUIREMENTS AND DIRECTHIRD OF THE COUNTRY'S IMPORTS. IF HOSTILITIES REACH TWO-THIRDS OF THE COUNTRY'S IMPORTS. IF HOSTILITIES REACH THE CITY OR AFFECT SHIPPING ON THE SMATT AL ARAB. IRAQ COULD BUFFER MAJOR SHORTAGES OF GRAIN. MACHINERY. AND PETROLEUM

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